

ARIZONA CORRECTIONAL INDUSTRIES

Annual Report

**FISCAL YEAR
2007**



ARIZONA CORRECTIONAL INDUSTRIES

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ARIZONA CORRECTIONAL INDUSTRIES

Dear Director Schriro:

I am pleased to present the Arizona Correctional Industries Annual Report for Fiscal Year 2007. In 1991 ACI was mandated to be self-sufficient. Since that time revenues have increased from \$5.7 million to a record \$27.2 million FY 2007.

Inmates assigned to ACI programs worked a total of 3,012,212 hours. The ACI work programs enabled inmates to contribute over \$1.8 million to Room and Board, Victim's Compensation Fund, and other important programs.

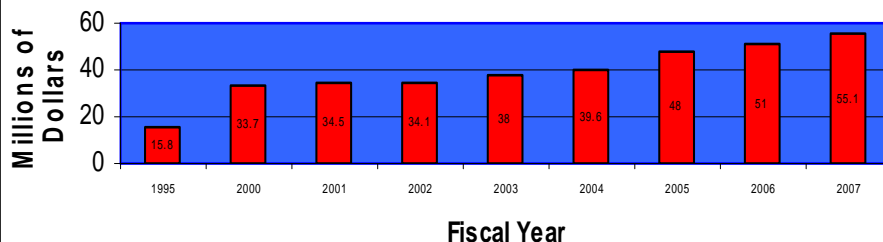
With over 1,200 active customers from Arizona State Agencies, School Districts, Counties, Cities and Towns, as well as the private sector, ACI continues to focus on improving customer service.

ACI employs over 130 full-time employees, dedicated to insuring that the male and female inmates working for ACI are receiving the best real-world training possible.

Sincerely,

Bill Branson
General Manager
Arizona Correctional Industries

ACI Contributions to the Arizona Economy



Accomplishments in Fiscal Year 2007

ACI achieved record revenues in FY 2007, increasing sales by 2.1 percent to \$27,233,030. ACI continues to see a positive financial impact since the implementation of the quality assurance program in 2005. ACI operated shops generated a cumulative gross profit of over \$2.4 million in Fiscal Year 2007, a 15 percent increase over Fiscal Year 2006.

ACI's Bakery Operation increased revenue 12.7 percent. The Metal Fabrication Shop increased revenue by 109.8 percent. The Shop also benefited from an increase in inmate beds, and had a significant increase in sales to private sector companies. The Graphic Arts (Print Shop) Operation increased revenue by 40.3 percent as business from private sector companies and Arizona State Agencies continued to increase.

The ACI License Plate Shop had a decline in sales of over \$906,000. This was mainly due to reduced license plate orders from



the Arizona Department of Motor Vehicles. Year-end sales were particularly impacted as MVD began a transition to the digital license plate. ACI began producing the new digital flat plates in August 2007.

Net Profit for ACI was \$649,873 in Fiscal Year 2007 (a significant decrease from \$1,484,256 in Fiscal Year 2006). This was primarily due to an increase in correctional officer salaries and State employee salaries. The increase in labor costs was \$1,108,240 over Fiscal Year 2006.

Mission Statement

To create opportunities for inmates to develop marketable job skills and good work habits through successful enterprises that produce quality products and services for our customers.

Improved Financial Operations

ACI upgraded its financial operating system in fourth quarter Fiscal Year 2007. The older system had been in place for years. The new system will dramatically improve inventory control, job costing, and financial reporting. In addition, the ability to quickly analyze shop performance through a series of dashboard queries will supply each shop with daily information that will improve financial reporting. Key to the implementation of the new software is the connectivity to each shop. By the end of FY 2007 all but three shops had been connected to the new system and were reporting daily financial information. The software also trains inmates in modern accounting applications which will improve their skills as they prepare for re-entry to society.

New Operations

A new cardboard box manufacturing operation was installed at the ACI operation in the Winslow Prison complex. The operation compliments the plastic bag manufacturing operation that was installed the previous year. The addition of custom box cutting machinery will enable ACI to manufacture storage boxes used by Arizona State Archives, as well as other box sizes. Future plans include additional equipment that will allow for printing on the boxes that can be specific to the customers requirements. ACI realized a cost savings of \$18,000 for the year on internal cardboard box purchases by having this operation.

ACI established a new Digital License Plate operation at the Eyman Prison complex after receiving a request from the Arizona Motor Vehicle Department for a product that would utilize a “green” manufacturing process that would eliminate volatile organic compounds (VOC) emissions. The new plates accomplish this goal and also offer improved recognition for the Department of Public Safety. Because of the flat design the plates are more efficient to ship to the MVD facilities throughout the state. The new operation began full production in August 2007. The Tag Plant will employ 27 inmates once the shop reaches full production.

The ACI Furniture Shop was relocated from the Florence Prison complex to the Lewis Prison complex. Improved space and the opportunity to supply jobs to ASPC-Lewis, created a seamless transition for the inmates being trained at the Work Based Education furniture program at the prison. It enables inmates to receive training in a variety of wood and laminate applications, and upon completion of the programs, be prepared to work in the ACI Furniture Shop. The move was completed in April 2007.

Labor Contracts

In Fiscal Year 2007, ACI Labor Contracts contributed \$9,688,487 to ACI revenue. Compared to FY 2006, ACI’s revenue was down \$1,203,100. The temporary inmate worker shortage at the Fort Grant facility resulted in a substantial loss of revenue. The departure of a long time labor contract at the State Prison Complex at Eyman resulted in the loss of 151 inmate jobs. One new labor contract was started in FY 2007, and one was expanded, resulting in 82 new inmate jobs. In FY 2007 1,173 inmates were employed with ACI labor partners at 28 locations both inside and outside the Prison facilities.

Inmate Wage Deductions

Arizona inmates had the following mandatory deductions taken from pay they received while working at ACI jobs. In Fiscal Year 2007 \$1,821,343 was withheld from inmate pay:

| | |
|----------------------------------|-------------|
| Room and Board (AZ General Fund) | \$1,442,561 |
| Court Ordered Restitution | \$310,030 |
| Alcohol Abuse and Treatment Fund | \$20,687 |
| Dependent Support | \$20,268 |
| Victim’s Compensation Fund | \$15,592 |
| Transition Programs | \$6,172 |
| Miscellaneous (filing fees, etc) | \$6,033 |
| Total: | \$1,821,343 |



ACI ORGANIZATION PROFILE

Customers

ACI customers include Arizona State Agencies, schools, cities, county government, private enterprise, non-profit organizations and citizens. ACI has 1,484 active accounts including 261 state accounts, 235 municipalities, 362 colleges and universities, as well as many schools, and private sector companies in Arizona.

Administration

Currently ACI has 144.5 staff positions. This includes 45 Industrial Production Specialists (IPS). ACI revenue per 107.5 filled positions in FY 2007 was \$360,700 excluding the IPS positions. ACI executive management consists of a General Manager, Comptroller, Labor Contracts Manager, Marketing and Sales Manager and three Regional Operations Managers.

ACI Quality Program

In December 2005 ACI was awarded the Showcase in Excellence Award by the Arizona Quality Alliance (AQA). ACI was one of the finalists for the Pioneer Award for 2006 which consisted of a three-day audit from the Arizona Quality Alliance.

In 2006 ACI implemented quality sampling and data measurement throughout the organization. All employees and inmates participated in mandatory quality training programs that included developing projects and quality measurements to help evaluate the processes at ACI.

Each ACI department and shop measures customer satisfaction. This includes days

receivable outstanding, on-time delivery by shop, customer order input, customer complaints, payable discounts taken, product cost of manufacturing, and customer satisfaction. The measures are tracked and analyzed to improve processes monthly.

Customer satisfaction is tracked by random phone surveys, and internet surveys to customers. Customer satisfaction averaged 95.4 percent in Fiscal Year 2007. In Fiscal Year 2007 the average on-time delivery was 94.4 percent.

ACI Operated Businesses

ACI operates 16 different businesses plus an inmate retail store. ACI manages each operation, staffed by a Production Supervisor or Manager, organized regionally under the direction of three Regional Managers. In support of ACI owned and operated businesses there are administrative, warehouse, delivery, and maintenance functions that are filled by inmates under the direct supervision of ACI staff. In Fiscal Year 2007 an average of 709 inmates worked daily in these business operations.

Products:

Bakery, Bedding, Furniture, License Plates, Garments, Plaques and Awards, Signs, Wood/Metal Refurbishing, Metal Fabrication, Office Furniture and Seating.

Services:

Graphic Arts, Data Fulfillment, Installation/Supports Service, Office Support, Retail Outlet, Copy Service, and Warehousing/Transportation.

Agriculture:

Crop planting, irrigation, maintenance and harvesting.



Private Sector

ACI provides workers for private enterprises that are unable to meet their work force requirements through the traditional labor market. Some of these businesses have established operations within prison walls, while others have operations in the community, with eligible inmates transported to and from the work sites. Currently 1,178 inmates are working in the Private Sector Programs.

Prison Industry Enhancement Certified Program (PIECP)

There were no active PIECP programs for Fiscal Year 2007. ACI was successful in recruiting a new PIECP that will start up in FY 2008.

Governmental Agreements

ACI has one contract with MVD and supplies labor for three inbound call centers. Sixty-six inmates are employed in the centers, handling over 1.5 million phone calls each year from the citizens of Arizona.

ACI OPERATIONS

By Location and Type

Arizona State Prison Complex—Florence

ACI Farms/Agriculture
ACI Bedding Factory
ACI Warehouse Operations
ACI Transportation Division

ACI Operations Administration
Dixon Farms
ACI Industrial Maintenance
Eagle Milling Co., Inc.

ACI Wood and Metal Refurbishing
ACI Metal Fabrication Factory
Prison Retail Outlet
ACI Consumer Products Division

Arizona State Prison Complex—Perryville

ACI Clothing Factory
ACI Data Fulfillment Center
ACI Print Shop and Graphic Arts
Morrison Management Specialist
Greater Auto Auction

Crothall Services Group
ACI Installation/Support Services
(three teams)
AZ Cotton Research Council
Arizona Trailer Mfg.

AZ Motor Vehicle Division Call Center
(two Operations)
Televerde (three Operations)
Hickman's Egg Ranch (two Operations)

Arizona State Prison Complex—Tucson

ACI Sign/Office Products Factory
ADOT/Motor Vehicle Division
Eurofresh Bobbin Operations

Farmer's Investment Company
Dixon Farms

Arizona State Prison Complex—Lewis

Common Market Equipment Company

American Curb and Vent

ACI Furniture Shop

Arizona State Prison Complex—Winslow

ACI Upholstery and Seating Shop

ACI Commodity Products Manufacturing

Arizona State Prison Complex—Douglas

ACI Clothing Factory

Southeast Arizona Medical Center

Fiesta Canning

Arizona State Prison Complex—Eyman

ACI Bakery Division

ACI Digital License Plate Manufacturing

ACI Wood and Metal Refurbishing

Arizona State Prison Complex—Yuma

Safety Services Co. (three Operations)

Arizona State Prison Complex—Safford/Fort Grant

Eurofresh Farms

Arizona State Prison Complex—Marana

ESB Modular Manufacturing

Arizona State Prison Complex—Phoenix West

Greater Auto Auction

ACI Central Administrative Office

Copy Service

2007 ACI AWARDS

Awards are based on sales revenue, Profitability,
and Performance Improvement over previous fiscal year.

PLATINUM AWARD

Bakery—Eddie Gonzalez
Bedding – Peggy Badgett
Sewing Perryville—John Hawley
Graphic Arts—Randy Bialkowski

GOLD AWARD

Labor Contracts—Bruce Farley
Metal Fabrication—Jimmy Allen
Signs and Awards—Malcolm McCumber
License Plates—Darrell Tierney

SILVER AWARD

Sewing Douglas—Jesus Verdugo
Agriculture—Richard Carpenter

BRONZE AWARD

Upholstery and Commodities—Dan Savage
Data Fulfillment—Dan Gasper
Lewis Furniture—Tom Seitz

SALES PERSON OF THE YEAR

Nick Angel

EMPLOYEE OF THE YEAR

Sharon Kennedy

SPECIAL RECOGNITION AWARDS

Safety Services Company—Devon Dickinson

Eurofresh Farms



| STATE OF ARIZONA | | | | | |
|---|--|----|-------------------|------|-------------------|
| DEPARTMENT OF CORRECTIONS | | | | | |
| ARIZONA CORRECTIONAL INDUSTRIES | | | | | |
| Statement on Net Assets-Enterprise Fund | | | | | |
| Year Ended June 30 | | | | | |
| | | | | | |
| | | | | | |
| Assets | | | 2007 | 2006 | |
| | | | | | |
| Current Assets: | | | | | |
| Cash in Bank and on Hand | | \$ | 206,455 | \$ | 167,561 |
| Cash on Deposit with State Treasurer | | | 1,675,121 | | 3,051,472 |
| Accounts Receivable net | | | 3,848,140 | | 3,119,845 |
| Interest Receivable | | | 19,593 | | 14,282 |
| Inventories | | | 3,413,154 | | 3,427,117 |
| Prepaid Expenses | | | 127,730 | | 80,749 |
| Total Current Assets | | | 9,290,193 | | 9,861,026 |
| Noncurrent Assets: | | | | | |
| Capital assets, not being depreciated | | | 692,438 | | 692,438 |
| Capital assets, being depreciated, net | | | 2,595,071 | | 2,399,377 |
| Total Noncurrent Assets | | | 3,287,509 | | 3,091,815 |
| Total Assets | | | 12,577,702 | | 12,952,841 |
| | | | | | |
| Liabilities | | | | | |
| | | | | | |
| Current Liabilities: | | | | | |
| Accounts Payable | | | 420,330 | | 1,475,861 |
| Accrued Payroll and Employee Benefits | | | 325,167 | | 116,970 |
| Accrued Compensated Absences | | | 242,925 | | 263,250 |
| Other Accrued Liabilities | | | 628,536 | | 591,885 |
| Total Current Liabilities | | | 1,616,958 | | 2,447,966 |
| | | | | | |
| Net Assets: | | | | | |
| Invested in Capital Assets | | | 3,287,509 | | 3,091,815 |
| Unrestricted | | | 7,673,235 | | 7,413,060 |
| Total Net Assets | | \$ | 10,960,744 | \$ | 10,504,875 |
| | | | | | |
| UNAUDITED | | | | | |

| STATE OF ARIZONA | | | | | |
|---|--|----|------------|----|-------------|
| DEPARTMENT OF CORRECTIONS | | | | | |
| ARIZONA CORRECTIONAL INDUSTRIES | | | | | |
| Statement of Revenues, Expenses, and Changes in | | | | | |
| Fund Net Assets - Enterprise Fund | | | | | |
| Year Ended June 30 | | | | | |
| | | | 2007 | | 2006 |
| Sales | | \$ | 27,144,036 | \$ | 26,570,406 |
| Cost of Goods Sold | | | 23,170,628 | | 22,375,033 |
| Gross Profit | | | 3,973,408 | | 4,195,373 |
| Operating Expenses | | | | | |
| Selling | | | 763,722 | | 617,421 |
| General and Administrative | | | 2,649,210 | | 2,365,772 |
| Total Operating Expenses | | | 3,412,932 | | 2,983,193 |
| Operating Income | | | 560,476 | | 1,212,180 |
| Nonoperating Revenues (Expenses) | | | | | |
| Investment Income | | | 85,532 | | 88,450 |
| Net (Loss) Gain on Disposal of Equipment | | | 3,865 | | 19,734 |
| Net Nonoperating Revenues | | | 89,397 | | 108,184 |
| Income Before Extraordinary Item | | | 649,873 | | 1,320,364 |
| Extraordinary Item | | | | | |
| Gain on Casualty | | | - | | 163,892 |
| Net Income | | | 649,873 | | 1,484,256 |
| Transfers out to other state funds | | | (194,004) | | (1,629,024) |
| Increase (decrease) in net assets | | | 455,869 | | (144,768) |
| Total net assets, July 1 | | | 10,504,875 | | 10,649,643 |
| Total net assets, June 30 | | \$ | 10,960,744 | \$ | 10,504,875 |
| UNAUDITED | | | | | |

| STATE OF ARIZONA | | | | |
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| DEPARTMENT OF CORRECTIONS | | | | |
| ARIZONA CORRECTIONAL INDUSTRIES | | | | |
| Statement of Cash Flows - Enterprise Fund | | | | |
| Year Ended June 30 | | | | |
| | | | | |
| | | | 2007 | 2006 |
| Cash flows from operating activity: | | | | |
| Receipts from customers | | \$ | 26,415,740 | \$ 27,231,513 |
| Payments to suppliers for goods and services | | | (13,138,974) | (11,530,910) |
| Payments to employees | | | (6,907,945) | (5,799,703) |
| Payments to inmates | | | (6,937,621) | (7,803,064) |
| Net cash used for operating activities | | | (568,800) | 2,097,836 |
| Cash flows from noncapital financing activities: | | | | |
| Cash transfers to other state funds | | | (194,004) | (1,629,024) |
| Net cash provided (used) for noncapital financing activities | | | (194,004) | (1,629,024) |
| Cash flows from capital and related financial activities: | | | | |
| Extraordinary item, gain on casualty | | | - | 163,892 |
| Proceeds from sale of capital assets | | | 3,865 | 19,734 |
| Purchases of capital assets | | | (664,050) | (965,873) |
| Net cash provided (used) for capital and related financing activities | | | (660,185) | (782,247) |
| Cash flows from investing activities: | | | | |
| Interest received on investments | | | 85,532 | 88,450 |
| Contributed capital | | | - | - |
| Net cash provided (used) by investing activities | | | 85,532 | 88,450 |
| Net (decrease) in cash and cash equivalents | | | (1,337,457) | (224,985) |
| Cash and cash equivalents, July 1 | | | 3,219,033 | 3,444,018 |
| Cash and cash equivalents, June 30 | | \$ | 1,881,576 | \$ 3,219,033 |
| UNAUDITED | | | | |

| STATE OF ARIZONA | | | | |
|---|--|----|-----------|--------------|
| DEPARTMENT OF CORRECTIONS | | | | |
| ARIZONA CORRECTIONAL INDUSTRIES | | | | |
| Statement of Cash Flows - Enterprise Fund | | | | |
| Year Ended June 30 | | | | |
| | | | | |
| | | | 2007 | 2006 |
| Reconciliation of operating income to net cash | | | | |
| provided (used) for operating activities: | | | | |
| Operating income | | \$ | 560,476 | \$ 1,212,180 |
| Adjustments to reconcile operating income to net | | | | |
| cash provided (used) for operating activities: | | | | |
| Depreciation expense | | | 464,430 | 444,412 |
| Net changes in assets and liabilities: | | | | |
| Accounts receivable | | | (733,607) | (523,368) |
| Inventories | | | 13,962 | 256,011 |
| Prepaid expenses | | | (46,981) | 59,666 |
| Accounts payable | | | (908,302) | 700,340 |
| Accrued payroll and employee benefits | | | 208,197 | (66,608) |
| Accrued compensated absences | | | (20,325) | 15,203 |
| Other accrued liabilities | | | (106,650) | - |
| Net cash provided (used) for operating activities | | \$ | (568,800) | \$ 2,097,836 |
| | | | | |
| | | | | |
| The following noncash transactions occurred during the year ended June 30, 2006 and 2007: | | | | |
| | | | | |
| Building improvements | | | - | - |
| Construction in progress completed | | | - | - |
| Accumulated depreciation related to discontinued operations | | | - | - |
| Capital assets, net of accumulated depreciation | | | - | - |
| Loss on disposal of equipment | | | - | - |
| | | | | |
| UNAUDITED | | | | |

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|--|--|-------------|-----------|-----------|-------------|
| STATE OF ARIZONA | | | | | |
| DEPARTMENT OF CORRECTIONS | | | | | |
| ARIZONA CORRECTIONAL INDUSTRIES | | | | | |
| SCHEDULE OF FIXED ASSETS & ACCUMULATED DEPRECIATION | | | | | |
| Year Ended June 30 | | | | | |
| | | | | | |
| | | | | | |
| SCHEDULE OF FIXED ASSETS: | | | | | |
| | | 2002 | INCREASE | DECREASE | 2003 |
| | | | | | |
| Land | | 692,438 | | | 692,438 |
| Land improvements | | 242,088 | | 1,650 | 240,438 |
| Building | | 804,582 | | | 804,582 |
| Building improvements | | 604,896 | 139,306 | 115,663 | 628,539 |
| Equipment | | 6,442,721 | 169,022 | 39,667 | 6,572,076 |
| Construction in progress | | - | 368,050 | 332,820 | 35,230 |
| Totals | | \$8,786,725 | \$676,378 | \$489,800 | \$8,973,303 |
| | | | | | |
| SCHEDULE OF ACCUMULATED DEPRECIATION: | | | | | |
| | | | | | |
| Land improvements | | 228,741 | 3,789 | | 232,530 |
| Building | | 176,798 | 41,412 | | 218,210 |
| Building improvements | | 380,924 | 124,595 | 29,641 | 351,283 |
| Equipment | | 5,095,192 | 382,699 | 124,595 | 5,477,891 |
| Totals | | \$5,881,655 | \$552,495 | \$154,236 | \$6,279,914 |
| | | | | | |
| Property, Plant, Equipment Net of Accumulated Depreciation | | \$2,905,070 | \$123,883 | \$335,564 | \$2,693,389 |
| | | | | | |
| UNAUDITED | | | | | |

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